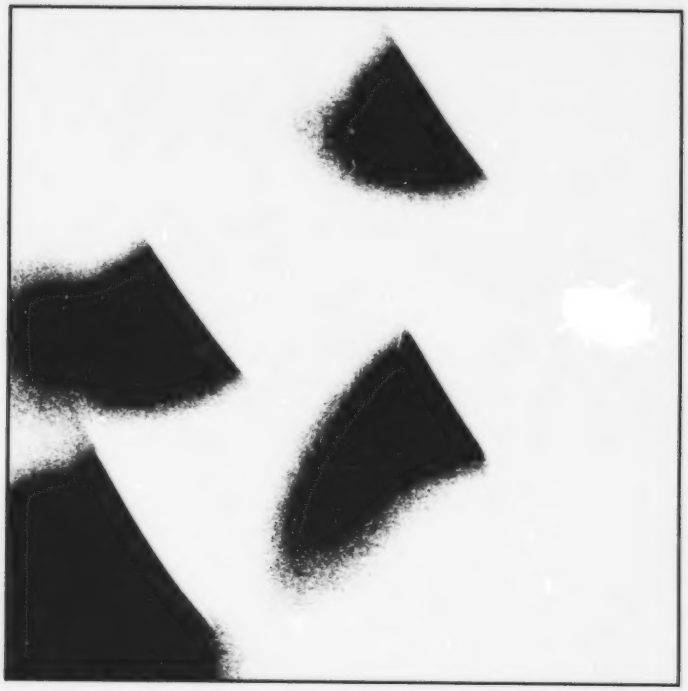
1988 ANNUAL REPORT



SEDCO

SASKATCHEWAN ECONOMIC
DEVELOPMENT CORPORATION

The Corporation
Letter of Transmittal 1
Chairman's Message 2
President's Report 3
Board of Directors 4
Activity Highlights 6
Provincial Economic Benefits 7
Management's Responsibility For Financial Statements 8
Auditor's Report 9
Statement of Financial Position 10
Statement of Operations and Deficit 11
Statement of Changes in Financial Position 12
Notes to Financial Statements 13

The Corporation

Since establishment in 1963, the Saskatchewan Economic Development Corporation has built a province-wide reputation for developing and providing programs to facilitate economic development in Saskatchewan.

The Corporation provides a wide range of financial and property services to business in nearly all sectors of the provincial economy to facilitate industrial development.

In all its activities, SEDCO's priority is to create and maintain jobs for people in Saskatchewan.

SEDCO's 52 employees are located in Regina and Saskatoon to deliver services conveniently and efficiently throughout the province.

HON. JOAN DUNCAN

March 15, 1989

To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Economic Development Corporation for the year ended December 31, 1988, including the financial statements duly certified in accordance with the Industrial Development Act.

I have the honour to be,

Your obedient servant,

Joan N Duncan

Hon. Joan Duncan
Minister Responsible
Saskatchewan Economic Development Corporation

LARRY A. KYLE

People expect their governments to participate in stimulative efforts to attract and develop industry and business.

Choosing the right project to support often depends on a shrewd guess as to how much novelty the marketplace will support. It serves no purpose to make a better mousetrap if the present mousetrap technology is well accepted and if the market is saturated. The mousetrap must also be within the technical capabilities of the labor force and its cost must be competitive with accepted designs. It is a good idea too, to bring the product out at a time when there are a lot of mice around.

At SEDCO, we try to learn lessons from past errors and to avoid the conservatism which flows from fear of failure or public rebuke. Management and board receive many creative proposals and cries for help. We sort them out; we try to build and diversify the Saskatchewan economy; we help people in trouble. Often these are people who have provided a lot of jobs for many years and are about to lose it all because of one mistake. We help them if we can, but it is the people of Saskatchewan who provide the money. They want us to help, but not to waste their money on lost causes or undeserving cases.

Such is our task. It has its costs, as the enclosed report will illustrate. We hope that our record of achievement will be seen to justify that cost.

Larry A. Kyle, Q.C.
Chairman of the Board

DOUGLAS S. PRICE

Throughout 1988 SEDCO celebrated 25 years of providing property and financial service to Saskatchewan's business community. We now look forward with anticipation to our second quarter century of service.

Despite a difficult economic year for some segments of Saskatchewan's economy, we were able to maintain operating results similar to those of 1987. While our activities throughout the year were to a more than normal extent aimed at supporting client companies, we were involved in a number of exciting new ventures and developments.

Activity in all areas remained at a relatively high level, resulting in a number of businesses being formed or assisted and a significant number of jobs created. The total number of loans approved in 1988 was the same as that of 1987.

The Corporation's total assets consisting of loans, investments, properties and other assets were close to the expected levels of $200 million, up 11 per cent.

Revenue declined, particularly from loans, while expenses were maintained at close to the level of the previous year. The result was a loss of $8.9 million after interest expense, provision for losses and write-down of property and share investments.

One of the bright spots during the year was that Saskatchewan's young people continued to take advantage of the Youth Entrepreneur Program, and as a result created approximately 55 new jobs in 1988 through the establishment of 29 new businesses.

SEDCO continued its emphasis on assisting small business, particularly in rural areas. For example, approximately 83 per cent of the loans written in 1988 were for $250,000 or less.

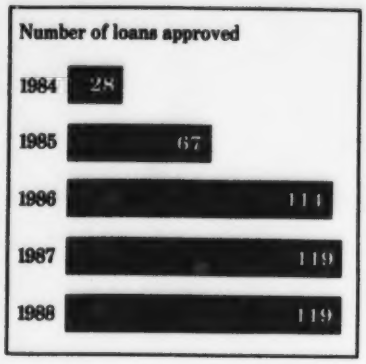
Throughout 1988 SEDCO celebrated its 25th anniversary in a number of ways, including production of a publication which outlined our history and paid tribute to those who served as directors since 1963. It told the stories of the initiative, imagination and expertise of 25 companies representing a cross section of the hundreds of successful firms which have used our services during the past 25 years. Also, in commemoration of the anniversary, a number of special projects were carried out with both public and staff participation.

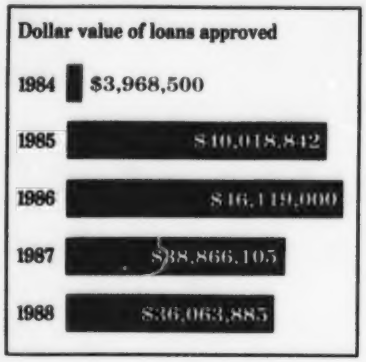
One of our most exciting projects was launched in 1988. We approved plans for a 20,000 square foot research greenhouse and associated laboratory space in Innovation Place in Saskatoon. It will accommodate both private and government technology groups. We believe it to be unique to Canada, and an important step toward attracting plant biotechnology development to Saskatchewan.

We acknowledge with gratitude the guidance and support provided by the members of the Board of Directors and extend to them our appreciation. The professionalism and dedication of the SEDCO personnel helped to make our 25th anniversary activities a success. We thank our employees for their contributions, and look forward to working with them as we enter our second quarter century in support of economic development and creation of employment in Saskatchewan.

Looking ahead to 1989, we see reasons for increased optimism. The Economic Council of Canada is predicting an increase in provincial growth, and many observers see a glimmer of optimism in the agricultural sector. Such improvements would be reflected in the level of SEDCO's operations and performance, so we look forward to the challenge of 1989 with enthusiasm.

Douglas S. Price
President and
Chief Executive Officer





Loans & Investments

A high level of loan activity was maintained during 1988 with 119 loan approvals totalling approximately $36.1 million. This compares with 119 loans approved in 1987 for a total approximate value of $38.9 million.

Continued emphasis on small business in 1988 is evidenced in that 83.2 per cent of the loans written were less than $250,000, and 50.4 per cent were for under $50,000.

Total loan activity in 1988 produced 334 direct jobs.

The loan portfolio grew by $17.6 million in 1988, and total disbursements were $24.8 million.

As of December 31, 1988 the corporation had loan investments in 392 companies located in all parts of the province and engaging in a wide variety of business endeavors.

Properties

Property sales remained steady during the year, with a total of approximately $4.6 million, an increase of $1.5 million over sales of the previous year.

During 1988 the completion of the West Addition to SEDCO Centre in Innovation Place resulted in the consolidation of all Saskatchewan Research Council services in Innovation Place. Construction on the Research Greenhouse complex in Innovation Place was also begun. Other major projects included the completion of an expansion to Threadfast Manufacturing in Swift Current.

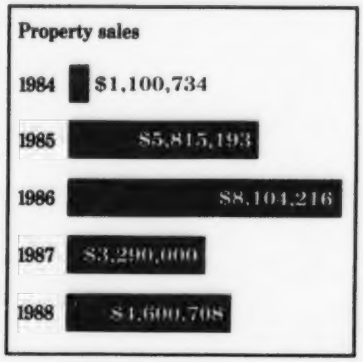
Significant construction activity in Agriplace in 1988 saw the completion of the Blue Line twin ice arena, and an 86,000 square foot distribution centre. Construction of a major processing plant was begun.

A total of 130 person years of employment was created in 1988 as a direct result of construction activity throughout the province.

SIZE DISTRIBUTION

Loan Size	Number	Dollar Amount
$ 0 — $ 50,000	60	$ 1,501,447
50,000 — 100,000	11	890,684
100,000 — 250,000	28	5,102,636
250,000 — 500,000	9	3,534,725
500,000 — 1,000,000	6	3,884,393
$1,000,000 — 1,500,000	2	2,700,000
Over — 1,500,000	3	18,450,000
	119	$36,063,885

[illegible] were handled in 1988



SEDCO's impact on the provincial economy during the year was significant. The Corporation's loan and construction activities resulted in the creation of 464 direct jobs. Wage values related to these jobs were in excess of $11 million, with increased tax revenues accruing to the provincial government of approximately $700,000.

Activities initiated in the past years continue to produce benefits, maintaining an additional 2,173 jobs with an approximate wage value of $47 million and provincial tax revenues in excess of $3 million.

Benefits arising from the Corporation's provision of rental properties and spin-off effects have not been included in these figures. Therefore, the actual impact of SEDCO's activities is far greater than reported.

PROVINCIAL ECONOMIC BENEFITS

	1988		1987	
	1988 Only	Continuing	1987 Only	Continuing
I Net Incremental Employment				
Loans	198	2,252	372	1,868
Lease Options/Agreements for Sale	55	174	36	72
Construction - Loan clients	81	81	95	95
Construction - Direct	130	130	150	150
TOTAL:	464	2,637	653	2,185
II Wage Value				
Loans	$4,631,803	$50,306,618	$ 6,238,394	$35,584,414
Lease Options/Agreements for Sale	1,186,838	3,385,914	647,340	1,348,749
Construction - Loan clients	2,012,040	2,012,040	2,280,000	2,280,000
Construction - Direct	3,229,200	3,229,200	3,600,000	3,600,000
TOTAL:	$11,059,881	$58,933,772	$12,765,734	$42,813,163
III Tax Revenue				
Loans	$ 292,016	$ 3,171,626	$ 374,303	$ 2,135,064
Lease Options/Agreements for Sale	74,825	213,468	38,840	80,924
Construction - Loan clients	126,851	126,851	136,800	136,800
Construction - Direct	203,588	203,588	216,000	216,000
TOTAL:	$ 697,280	$ 3,715,533	$ 765,943	$ 2,568,788

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Saskatchewan Economic Development Corporation have been prepared by corporate management in accordance with generally accepted accounting principles, and necessarily include some amounts based on informed judgment and management estimates. Financial data presented elsewhere in this Annual Report is consistent with that in the financial statements.

The Corporation's independent auditors, Deloitte Haskins & Sells, have examined the financial statements of the Corporation. The scope of their examination, and their opinion on whether these financial statements present fairly the Corporation's financial position and operating results, are given in the Auditors' report.

Insuring the integrity and objectivity of financial information is an integral part of management's responsibility to the ongoing operation. Management maintains an appropriate system of internal accounting controls, policies, and procedures to provide reasonable assurance that all financial transactions are recorded on a timely basis with proper approvals, and result in reliable financial statements.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an Audit Committee which is composed entirely of outside directors. The committee meets periodically with management and is available to meet with the independent auditors to review internal accounting controls, audit results and accounting principles and practices.

On behalf of management,

L P Larsen

L. P. Larsen
Vice President, Finance & Administration

To the Members of the
Legislative Assembly,
Province of Saskatchewan:

We have examined the statement of financial position of the Saskatchewan Economic Development Corporation as at December 31, 1988 and the statements of operations and deficit and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of depreciation of rental assets as described in Note 2, on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants

January 26, 1989

	1988	1987
	(in thousands)	
ASSETS		
Loans - (Note 4)	$133,221	$115,604
Share investments (Note 5)	2,967	3,137
Property holdings (Note 6)	61,917	59,782
Other	1,328	1,033
	$199,433	$179,556
LIABILITIES AND PROVINCE'S EQUITY		
Bank indebtedness	$ 913	$ 826
Accounts payable and accrued liabilities	3,981	3,448
Notes payable (Note 7)	35,176	85,212
Long term debt (Note 8)	151,566	94,647
	191,636	184,133
Province of Saskatchewan's Equity (Deficiency)		
Advances (Note 9)	50,000	28,702
Deficit	(42,203)	(33,279)
	7,797	(4,577)
	$199,433	$179,556

(See accompanying notes)

	1988	1987
	(in thousands)	
REVENUE		
Loans and investments	$ 9,611	$12,734
Property	4,927	4,612
	14,538	17,346
EXPENSES		
Rental property	3,273	2,876
General corporate	3,483	3,302
	6,756	6,178
Revenue before the following	7,782	11,168
Interest expense	13,719	13,935
Provision for losses on loans	1,597	4,517
Write-down of property and share investments to net realizeable value	1,390	288
LOSS FOR YEAR	8,924	7,572
Deficit, beginning of year	33,279	25,707
DEFICIT END OF YEAR	$42,203	$33,279

(See accompanying notes)

	1988	1987
	(in thousands)	
Cash provided by (used in) operating activities		
Loss for year	$ (8,924)	$ (7,572)
Add non-cash items		
Depreciation	441	488
Provision for losses on loans	1,597	4,517
Write-down of property & share investments	1,390	288
	(5,496)	(2,279)
Loans:		
Disbursements	(24,820)	(32,727)
Repayments	12,548	40,942
Property disposals financed	(7,253)	(3,968)
Share investments:		
Purchased	(750)	—
Sold	330	—
Property holdings:		
Additions	(10,510)	(16,017)
Proceeds from disposals	283	1,591
Disposals financed by loans	7,253	3,968
Net change on other non-cash items	147	(691)
Cash used in operating activities	(28,268)	(9,181)
Cash provided by (used in) financing activities		
Proceeds of long term debt	56,919	4,000
Repayment of long term debt	—	(65,000)
Additions (reductions) notes payable net	(50,036)	69,403
Equity advance	21,298	—
Cash provided by financing activities	28,181	8,403
Decrease in cash during year	(87)	(778)
Cash position, beginning of year	(826)	(48)
Cash position end of year	$ (913)	$ (826)

(See accompanying notes)

1. SIGNIFICANT ACCOUNTING POLICIES

a) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts in arrears are reviewed on a regular basis by management. Where a potential loss is identified, the exposure is compared to the estimated value of the security and an appropriate provision established. Interest revenue is not accrued for accounting purposes on loans where a write-off is anticipated.

b) DEPRECIATION

With the exception of Innovation Place, depreciation on rental assets is calculated using the amortization method. The assets are amortized over 25 years, assuming an interest cost of 10%.

The depreciation on the Innovation Place property is provided under the sinking fund method. Under this method depreciation is charged to income in amounts which increase annually consisting of fixed annual sums together with interest compounded at the rate of 5% per annum so as to fully depreciate the property over its estimated useful life. The property consists of buildings with an estimated useful life of 50 years and sites and improvements with an estimated useful life of 33 years.

c) PROPERTY UNDER DEVELOPMENT

Property under development is carried at the lower of cost and net realizable value.

The Corporation capitalizes the following in arriving at the cost of property under development:

Land acquisition costs
Direct development costs
Administration costs allocated
Interest

Where the net realizable value of specific properties being held for development does not exceed book value, interest relating to the property is charged to current operations.

Estimated total development costs are taken into consideration in calculating gains or losses on sale of parcels of land forming part of industrial development. Sales are recognized at the date nonconditional offers to purchase are approved by the Corporation and appropriate consideration has been received.

d) SHARE INVESTMENTS

The Corporation has acquired shares in both public and private companies which are carried at the lower of cost and net realizable value. In the case where there is a parent-subsidiary relationship, the subsidiary is not consolidated with the accounts of the Corporation as a formal plan exists to dispose of the investment. Dividends are recorded as income when received.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1988, the depreciation method on rental assets (except Innovation Place) was changed to the amortization method from the straight line method. This change reduced the 1988 depreciation by $225,000. This change was not applied retroactively. If the change had been applied retroactively, the depreciation for 1987 would have decreased by $100,000.

3. STATUS OF THE CORPORATION

The Corporation was incorporated in 1963 pursuant to The Industrial Development Act. The financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

4. LOANS

	1988	1987
	(in thousands)	
Loan principal receivable	$122,305	$115,982
Interest accrued and receivable	5,251	4,296
Loan costs receivable	802	291
	128,358	120,569
Agreements for sale	6,303	5,789
Lease options less unearned income of $4,020,000 (1987 - $464,000)	7,208	3,404
	141,869	129,762
Less accumulated provision for doubtful accounts	8,648	14,158
	$133,221	$115,604

Included in loans balance is $8,340,000 (1987 - $8,899,000) from Westank Industries Ltd. a subsidiary. During 1988, the Corporation accrued interest on these loans totalling $464,000 (1987 - $1,292,000) and received $ Nil (1987 - $114,000) in payments.

5. SHARE INVESTMENTS

	1988	1987
	(in thousands)	
At Cost		
Shares in subsidiary company	$11,280	$11,280
Shares in listed companies	1,000	1,000
Shares in unlisted companies	5,240	820
	17,520	13,100
Accumulated provision for losses	14,553	9,963
	$ 2,967	$ 3,137

6. PROPERTY HOLDINGS

	1988	1987
	(in thousands)	
Property under development for industrial purposes (lower of cost and net realizable value)	$28,558	$27,292
Other land, buildings, improvements, and equipment (lower of cost and net realizable value)		
Rental properties	34,904	30,416
Rental properties under construction	477	3,778
Office furniture & equipment	1,049	974
	36,430	35,168
Less accumulated depreciation	3,071	2,678
	33,359	32,490
	$61,917	$59,782

Depreciation for the year amounted to $441,000 (1987 - $488,000). The average depreciation rate for assets was 1.6 per cent (1987 - 2.4 per cent).

These values include interest capitalized in the amount of $2,442,000 (1987 - $1,963,000).

7. NOTES PAYABLE

	1988	1987
	(in thousands)	
Province of Saskatchewan		
January 31, 1989 (1987 - 8.65%) 10.65%	$ 8,400	$ 9,000
March 31, 1989 (1987 - 8.77%) 11.00%	24,500	57,500
December 31, 1989 ..... 0.00%	2,276	18,712
	$35,176	$85,212

8. LONG TERM DEBT

	1988	1987
	(in thousands)	
Province of Saskatchewan		
January 15, 1991 ..... 9.50%	$ 16,000	$ 16,000
June 1, 1991 ..... 7.08%	5,000	5,000
June 3, 1994 ..... 8.46%	7,383	7,383
October 1, 1995 ..... 9.34%	3,857	3,857
June 1, 1998 ..... 9.41%	8,407	8,407
June 2, 2006 ..... 9.62%	10,000	10,000
July 10, 2007 ..... 9.83%	4,000	4,000
March 3, 2008 ..... 9.62%	3,000	—
August 10, 2008 ..... 10.06%	3,919	—
	61,566	54,647
Crown Investments Corporation of Saskatchewan		
December 30, 1991 ..... 9.000%	$ 15,000	$ 15,000
February 25, 1993 ..... 9.750%	40,000	—
May 28, 1993 ..... 8.653%	15,000	15,000
November 10, 1993 ..... 10.250%	10,000	—
April 16, 1996 ..... 9.750%	10,000	10,000
	90,000	40,000
	$151,566	$ 94,647

$45,566,000 (1987 - $38,647,000) of the Province of Saskatchewan debt with an original term of 20 years, is subject to redemption on 6 months notice.

9. EQUITY ADVANCES

These advances are interest-free and are payable at the discretion of the Crown Investments Corporation of Saskatchewan.

10. CONTINGENT LIABILITIES

As at December 31, 1988, the Corporation was contingently liable under loan guarantees in the amount of $3,585,400.

11. COMMITMENTS

a) The total amount not yet disbursed on loans approved is $9,491,493.

b) The Corporation has approved guarantees which were in force but not used at December 31, 1988 amounting to $1,249,600.

c) The costs to complete properties approved for development approximate $2,844,000.

12. PENSION PLAN

Substantially all employees are members of the Crown Investments Corporation Pension Plan, which is a defined contribution plan. The Corporation's financial obligation to this plan is limited to making regular payments to the plan to match the amounts contributed by the employees for current services.

13. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

Other amounts owing to related parties and their terms of settlement are described separately in the financial statements and the notes thereto.